THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	
Federal–State Joint Board on Universal Service	CC Docket No. 96–45
Forward-Looking Mechanism For High Cost Support for Non-Rural LECs	CC Docket No. 97-160

COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

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July 23, 1999

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BEFORE THE
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The General Services Administration ("GSA") submits these Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Further Notice of Proposed Rulemaking ("Notice") released on May 28, 1999. In the Notice, the Commission seeks comments and replies on the inputs for its model for determining the forward-looking economic cost of constructing and operating the network facilities and functions used to provide the services supported by the Federal universal service support mechanisms.

I. INTRODUCTION

Pursuant to Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 481(a)(4), GSA is vested with the responsibility to represent the customer interests of the FEAs before Federal and state regulatory agencies. The FEAs require a wide array of interexchange and local

telecommunications services throughout the nation. From their perspective as end users, the FEAs have consistently supported the Commission's efforts to bring the benefits of competitive markets to consumers of all telecommunications services.

In consultation with the Federal–State Joint Board on Universal Service ("Joint Board"), the Commission has taken an important step in reforming the high–cost support procedures for non–rural local exchange carriers ("LECs").[1] In the *Seventh Report and Order*, the Commission describes a forward–looking methodology for calculating universal service support for non–rural carriers providing service in high–cost areas. Procedures adopted in the *Seventh Report and Order* will be employed to determine Federal support amounts.

The Notice, which was issued concurrently with the *Seventh Report and Order*, seeks comments on the input values for the model to be used to determine the carriers' forward-looking costs. In these Comments, GSA addresses three topics designated in the Notice:

- the productivity factor to be used to bring forward the 1996 data relied upon for estimating common support service expenses;
- the depreciation lives and future net salvage percents to be used in the model; and
- the rate of return to be used in the model.

In a separate Further Notice of Proposed Rulemaking ("Companion Notice"), also released concurrently with the *Seventh Report and Order*, the Commission seeks comments on issues concerning universal service high cost support and access charge reform. GSA is submitting separate Comments in response to the Companion Notice.

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[1] Seventh Report and Order and Thirteenth Order on Reconsideration in CC Docket No. 96–45; and Fourth Report and Order in CC Docket No. 96–262; released jointly on May 28, 1999 ("*Seventh Report and Order*").

II. The Commission Should Use A 6.5 Percent Productivity Factor In Its Model Calculations

The Commission proposes to use a 6.0 percent productivity factor for each year (1997 and 1998) to bring forward the 1996 data relied upon for estimating common support service expenses.[2] This 6.0 percent productivity factor is based on the 6.5 percent "X-factor" used in the Commission's price cap methodology, but excludes the .5 percent Consumer Productivity Dividend adopted in 1997.[3]

The Commission required each price cap LEC to adjust its price cap indexes ("PCIs"), effective July 1, 1997, to the levels for the 1997-98 tariff year that would have been in effect had it adopted the 6.5 percent X-factor in time to become effective with the LECs' 1996 annual tariff filings.[4] The adoption of the 6.5 percent productivity factor has thus resulted in reduced access revenues in both 1997 and 1998.

Despite the use of a 6.5 percent productivity factor, GSA observes that overall price cap LEC earnings continued to rise in 1997 and 1998, as the following table shows:[5]

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[2] Notice, para. 226.

[3] Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, and Access Charge Reform, CC Docket No. 96-262, Fourth Report and Order in CC Docket No 94-1 and Second Report and Order in CC Docket No. 96-262, FCC 97-159, released May 2, 1997 ("Fourth Report"), para. 123.

[4] Id., para 179.

[5] FCC Common Carrier Bureau Web Site, Rate of Return Reports, May 20, 1999.

Year	Weighted Arithmetic Mean Interstate Rate of Return Price Cap Companies
1996	15.15%
1997	15.60%
1998	15.94%

This data indicate that the actual price cap LEC productivity has exceeded 6.5 percent since 1996. In view of this, GSA urges the Commission to use the full 6.5 percent productivity factor to reduce the estimated input value for each common support service expense account.

III. The Commission Should Use The Depreciation Lives And Future Net Salvage Percents Submitted By The HAI Sponsors In Its Model Calculations

In its 1997 Further Notice, the Commission tentatively concluded that it should adopt depreciation expenses that reflect a weighted average of the depreciation rates that it has prescribed for LECs subject to prescription.[6] In its comments on the 1997 Further Notice, GSA supported the use of weighted averages of prescribed projection lives and future net salvage percents, since prescribed rates are designed to apply only to embedded plant.[7] As the Commission notes, the HAI sponsors have submitted

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[6] Federal-State Joint Board on Universal Service, CC Docket No. 96-45, and Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket No. 97-160, Further Notice of Proposed Rulemaking, 97-256, released July 18, 1997 ("1997 Further Notice"), para. 152.

[7] 1997 Further Notice, Comments of GSA, p. 6.

calculations representing the weighted average projection lives and future net salvage percents from 76 study areas, consistent with GSA's recommendation.[8] GSA agrees with the Commission's tentative conclusion that HAI's values represent the best available forward-looking estimates of depreciation lives and future net salvage percents.[9]

The lives prescribed by the Commission are forward-looking because they "are not based solely on the engineered life of an asset, but also consider the impacts of technology change and obsolescence."[10] The Commission explained this in its Depreciation NPRM as follows:

> We note that, since the Commission's Depreciation Reform Proceeding in 1980, the life and salvage factors prescribed by the Commission are forward-looking factors that are based primarily on analysis of incumbent LEC investment plans and on judgments regarding the technological obsolescence and economic viability of the assets, rather than a focus on the historical equipment life trends.[11]

Empirical confirmation of the forward-looking nature of the Commission's prescription is provided by the fact that the average depreciation rate for an incumbent LEC is about seven percent, although incumbent LECs are retiring plant at only a four

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[8] Notice, para. 233. HAI was submitted by AT&T Corp. ("AT&T") and MCI WorldCom, Inc. ("MCI").

[9] Id., para. 234.

[10] Id., para. 235.

[11] 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers, CC Docket No. 98-137, Notice of Proposed Rulemaking, FCC 98-170, released October 14, 1998 ("Depreciation NPRM"), footnote 6.

percent rate.[12] This consistent excess of accruals over retirements has resulted in a dramatic rise in LEC depreciation reserve levels. As shown on Attachment 1 to these Comments, LEC reserve levels have risen from 18.7 percent in 1980 to 50.7 percent in 1998.

Since the values submitted by the HAI sponsors reflect the Commission's forward-looking prescriptions, they should be used as model inputs.

IV. The Commission Should Use A Rate Of Return Lower Than 11.25 Percent In Its Model Calculations

The Commission found that the record in this proceeding failed to justify a rate of return different from the currently prescribed Federal rate of return of 11.25 percent.[13] However, the Commission tentatively concluded that the model should use a new rate of return if one is prescribed.[14]

To that end, the Commission initiated a new rate of return proceeding last fall.[15] Comments were filed on January 19, 1999, Reply Comments on March 16, 1999, and Rebuttal Comments on April 8, 1999. The record in the Rate of Return Proceeding is thus complete, and the matter is ripe for decision.

GSA urges the Commission to promptly conclude its rate of return deliberation and prescribe a new, and lower, unitary rate of return. In its Direct Case in the Rate of

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[12] Notice, para. 235.

[13] Id., para. 239.

[14] Id.

[15] Prescribing the Authorized Unitary Rate of Return for Interstate Services of Local Exchange Carriers, CC Docket No. 98-166, Notice Initiating A Prescription Proceeding

Return Proceeding, GSA recommended that the Commission prescribe a 9.5 percent rate of return, far below the current 11.25 percent authorized return.[16] GSA pointed out that most state commissions had also found the appropriate rate of return to be well below 11.25 percent in their recent Total Element Long Run Incremental Cost ("TELRIC") and universal service proceedings.[17] GSA's rate of return methodology was endorsed by MCI in its Reply Comments.[18] AT&T recommended a rate of return in the range of 8.0 to 9.0 percent, even lower than that recommended by GSA.[19]

The Commission must not allow the excellent record developed in its Rate of Return Proceeding to grow stale. The time to act is now. The Commission should prescribe a lower unitary rate of return and use it in its model calculations.

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and Notice of Proposed Rulemaking, FCC 98-222, released October 5, 1998 ("Rate of Return Proceeding").

[16] Id., Direct Case of GSA, p. 23.

[17] Id., pp. 22-23.

[18] Rate of Return Proceeding, Reply Comments of MCI, p. 10.

[19] Rate of Return Proceeding, Responsive Submission of AT&T to Prescription Proceeding Direct Case Submissions, p. 38.

V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Comments.

Respectfully submitted,

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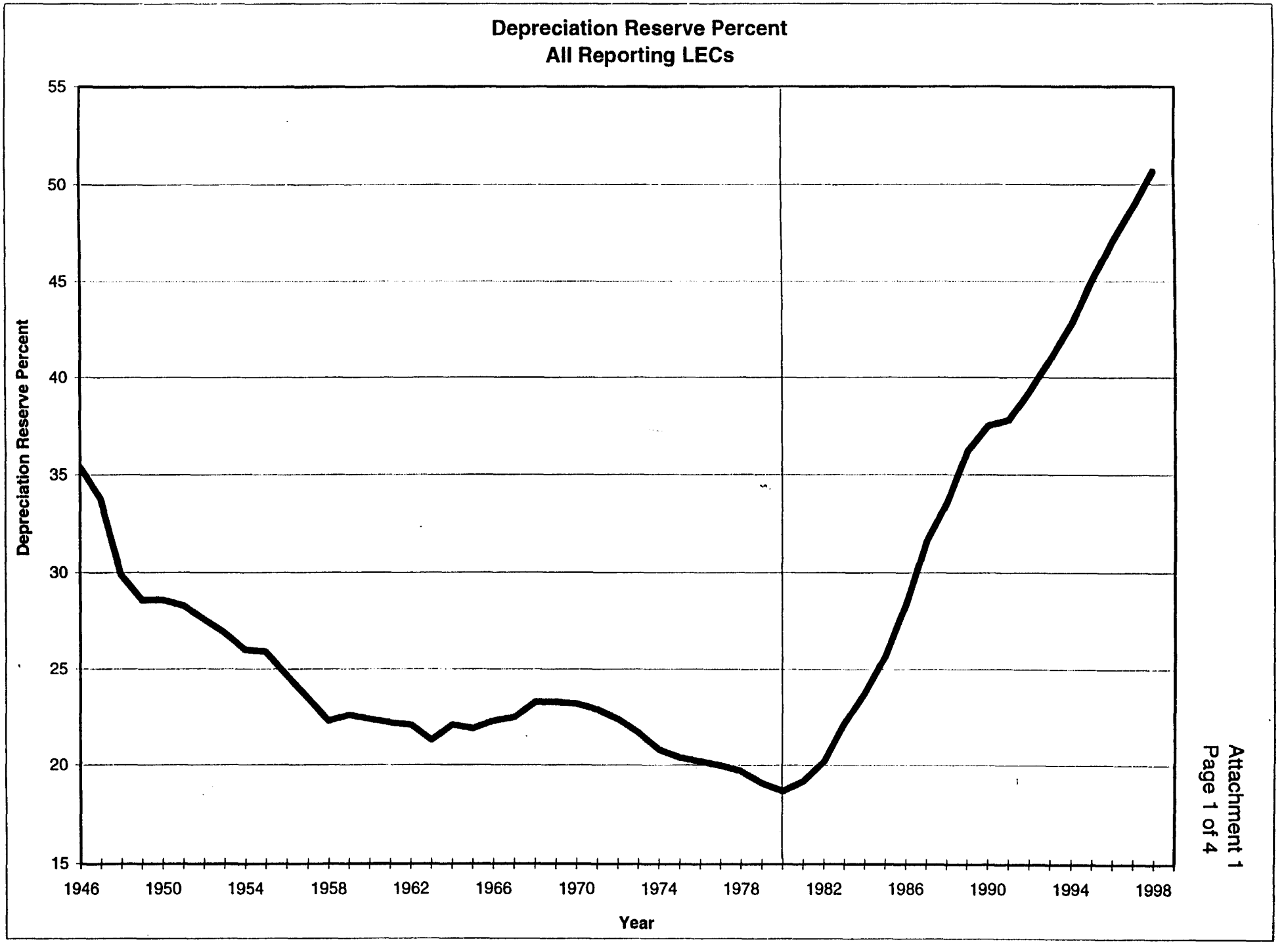
Depreciation Reserve Percent
All Reporting LECs
Depreciation Reserve Percent
55
50
45
40
35
30
25
20
15
1946
1950
1954
1958
1962
1966
1970
1974
1978
1982
1986
1990
1994
1998
Year

All Reporting LECs' Plant Related Rates

(Dollars in Millions)

	Telecommunications Plant in Service													
	BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
1946		6,500						2,300					35.4
1947	6,500	7,400	6,950	900				2,500	2,400				33.8
1948	7,400	8,700	8,050	1,300				2,600	2,550				29.9
1949	8,700	9,800	9,250	1,100				2,800	2,700				28.6
1950	9,800	10,500	10,150	700				3,000	2,900				28.6
1951	10,500	11,300	10,900	800				3,200	3,100				28.3
1952	11,300	12,300	11,800	1,000				3,400	3,300				27.6
1953	12,300	13,400	12,850	1,100				3,600	3,500				26.9
1954	13,400	14,600	14,000	1,200				3,800	3,700				26.0
1955	14,600	15,800	15,200	1,200				4,100	3,950				25.9
1956	15,800	17,400	16,600	1,600				4,300	4,200				24.7
1957	17,400	19,600	18,500	2,200				4,600	4,450				23.5
1958	19,600	22,000	20,800	2,400				4,900	4,750				22.3
1959	22,000	23,000	22,500	1,000				5,200	5,050				22.6
1960	23,000	25,000	24,000	2,000	2,700	700	1,100	5,600	5,400	11.7	3.0	4.6	22.4
1961	25,000	27,000	26,000	2,000	2,800	800	1,200	6,000	5,800	11.2	3.2	4.6	22.2
1962	27,000	29,000	28,000	2,000	2,900	900	1,300	6,400	6,200	10.7	3.3	4.6	22.1
1963	29,000	32,000	30,500	3,000	4,000	1,000	1,400	6,800	6,600	13.8	3.4	4.6	21.3
1964	32,000	34,000	33,000	2,000	2,900	900	1,600	7,500	7,150	9.1	2.8	4.8	22.1
1965	34,000	37,000	35,500	3,000	4,100	1,100	1,700	8,100	7,800	12.1	3.2	4.8	21.9
1966	37,000	40,000	38,500	3,000	4,100	1,100	1,900	8,900	8,500	11.1	3.0	4.9	22.3
1967	40,000	44,000	42,000	4,000	5,100	1,100	2,100	9,900	9,400	12.8	2.8	5.0	22.5

All Reporting LECs' Plant Related Rates

(Dollars in Millions)

	Telecommunications Plant in Service												
	BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
1968	43,249	47,123	45,186	3,874	5,104	1,230	2,304	10,979	10,440	11.8	2.8	5.1	23.3
1969	47,175	51,724	49,450	4,549	6,022	1,473	2,507	12,072	11,526	12.8	3.1	5.1	23.3
1970	51,723	56,951	54,337	5,228	6,880	1,651	2,751	13,213	12,643	13.3	3.2	5.1	23.2
1971	56,972	63,090	60,031	6,118	8,052	1,933	3,016	14,447	13,830	14.1	3.4	5.0	22.9
1972	63,068	69,870	66,469	6,802	9,044	2,242	3,330	15,643	15,045	14.3	3.6	5.0	22.4
1973	69,951	77,442	73,697	7,491	10,085	2,595	3,659	16,769	16,206	14.4	3.7	5.0	21.7
1974	77,107	84,888	80,998	7,781	11,024	3,243	4,047	17,685	17,227	14.3	4.2	5.0	20.8
1975	84,799	92,284	88,542	7,485	10,881	3,396	4,486	18,809	18,247	12.8	4.0	5.1	20.4
1976	92,591	99,879	96,235	7,288	11,139	3,856	4,934	20,163	19,486	12.0	4.2	5.1	20.2
1977	101,237	109,496	105,367	8,259	12,438	4,136	5,630	21,903	21,033	12.3	4.1	5.3	20.0
1978	109,502	119,336	114,419	9,834	14,549	4,681	6,199	23,474	22,689	13.3	4.3	5.4	19.7
1979	118,612	129,972	124,292	11,360	16,843	5,452	6,820	24,881	24,178	14.2	4.6	5.5	19.1
1980	129,767	142,096	135,932	12,329	18,694	6,378	7,804	26,512	25,697	14.4	4.9	5.7	18.7
1981	142,121	155,845	148,983	13,724	19,482	5,749	8,664	29,932	28,222	13.7	4.0	5.8	19.2
1982	155,907	168,075	161,991	12,168	18,466	6,409	9,757	33,957	31,945	11.8	4.1	6.0	20.2
1983	169,162	178,482	173,822	9,320	16,076	6,664	11,340	39,571	36,764	9.5	3.9	6.5	22.2
1984	152,315	159,798	156,057	7,483	14,994	4,994	10,048	37,996	38,784	9.8	3.3	6.4	23.8
1985	174,218	186,294	180,256	12,076	18,972	6,687	11,469	43,837	40,917	10.9	3.8	6.9	25.7
1986	186,972	198,758	192,865	11,786	18,907	6,954	13,142	51,543	47,690	10.1	3.7	7.5	28.4
1987	199,063	209,687	204,375	10,624	18,535	7,886	15,263	61,471	56,507	9.3	4.0	8.1	31.6
1988	210,720	220,395	215,558	9,675	17,947	8,949	16,627	74,123	67,797	8.5	4.2	7.7	33.6

All Reporting LECs' Plant Related Rates

(Dollars in Millions)

	Telecommunications Plant in Service												
	BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
1989	220,126	229,326	224,726	9,200	16,868	8,145	16,839	83,115	78,619	7.7	3.7	7.5	36.2
1990	229,103	235,247	232,175	6,144	18,473	12,380	16,955	88,146	85,631	8.1	5.4	7.3	37.5
1991	236,093	241,620	238,857	5,527	18,322	12,896	16,607	91,427	89,787	7.8	5.5	7.0	37.8
1992	242,599	249,508	246,054	6,909	18,877	12,138	17,036	98,053	94,740	7.8	5.0	6.9	39.3
1993	250,570	258,782	254,676	8,212	18,864	11,217	17,676	106,079	102,066	7.5	4.5	6.9	41.0
1994	259,216	267,443	263,330	8,227	18,781	10,990	18,656	114,598	110,339	7.2	4.2	7.1	42.8
1995	268,555	278,946	273,751	10,391	19,482	9,411	19,393	125,789	120,194	7.3	3.5	7.1	45.1
1996	278,974	291,569	285,272	12,595	22,401	10,271	20,527	137,278	131,534	8.0	3.7	7.2	47.1
1997	291,569	303,809	297,689	12,240	23,171	11,627	21,156	148,163	142,721	7.9	4.0	7.1	48.8
1998	303,689	319,767	311,728	16,078	24,218	9,337	21,947	162,102	155,133	8.0	3.1	7.0	50.7
Avg.	'60-'83									12.6	3.6	5.2	
	'84-'98									8.4	4.1	7.2	

Source: 1946 -1967 Report on Telephone Industry Depreciation, Tax and Capital/Expense Policy, Accounting and Audits Division, FCC, April 15, 1987, pp.6, 9
1968 - 1983 FCC Statistics of Common Carriers, Tables 12 and 16
1984 - 1987 FCC Statistics of Common Carriers, Tables 10 and 14
1988 - 1998 FCC Statistics of Common Carriers, Tables 2.7 and 2.9

Note 1: 1946 - 1983 Includes AT&T

Note 2: Cols l and m for 1985-1987 from Table 14 data as follows:
Col l = 1985 Col g/165,076
1986 Col g/175,926
1987 Col g/187,920
Col m = 1985 Col h/170,355
1986 Col h/181,496
1987 Col h/194,343

6/25/99 - Snavely King Majoros O'Connor & Lee, Inc.

CERTIFICATE OF SERVICE

I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Comments of the General Services Administration" were served this 23nd day of July, 1999, by hand delivery or postage paid to the following parties.

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